

LAKE PARK MUNICIPAL UTILITIES

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2012

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LAKE PARK MUNICIPAL UTILITIES

OFFICIALS

| <u>NAME</u> | <u>TITLE</u> | <u>TERM EXPIRES</u> |
|----------------|---------------------|---------------------|
| Brent Jacobsen | Chairman | December 31, 2012 |
| Carl Gochnauer | Vice-Chairman | December 31, 2014 |
| Vivian LaLone | Secretary/Treasurer | December 31, 2013 |
| Tony Lemker | Trustee | December 31, 2016 |
| Carol Johnson | Trustee | December 31, 2015 |
| Linda Treharne | Municipal Clerk | Indefinite |

WINTHER, STAVE & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Lake Park Municipal Utilities

We have audited the accompanying financial statements of the business-type activities and each major fund of Lake Park Municipal Utilities (Utilities), a component unit of the City of Lake Park, as of and for the year ended June 30, 2012, which collectively comprise Lake Park Municipal Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 7, the Utilities did not record or disclose the net annual required contribution for other postemployment benefits (OPEB) or the OPEB net liability obligation as required by Governmental Accounting Standards Board Statement No. 45. The effect on the financial statements of this departure is not reasonably determinable.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Lake Park Municipal Utilities at June 30, 2012, and the respective changes in the funds' financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2012 on our consideration of Lake Park Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws,

regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require the Budgetary Comparison Information on pages 21 and 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate, operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Lake Park Municipal Utilities has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Wintner, Stave & Co., LLP

October 12, 2012

BASIC FINANCIAL STATEMENTS

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
JUNE 30, 2012

| | Business-Type Activities |
|--|-----------------------------|
| ASSETS: | |
| Cash and cash equivalents | \$1,860,654 |
| Accounts receivable | 176,197 |
| Inventories | 260,642 |
| Other current assets | 16,030 |
| Restricted assets | 22,327 |
| Other assets | 52,212 |
| Capital assets - net of accumulated depreciation | <u>3,459,705</u> |
| TOTAL ASSETS | <u>5,847,767</u> |
| LIABILITIES: | |
| Accounts payable | 162,479 |
| Accrued expenses | 8,438 |
| Customer meter deposits | 14,219 |
| Long-term liabilities: | |
| Portion due or payable within one year: | |
| Revenue capital loan notes | 130,000 |
| Portion due or payable after one year: | |
| Revenue capital loan notes | <u>1,585,000</u> |
| TOTAL LIABILITIES | <u>1,900,136</u> |
| NET ASSETS: | |
| Invested in capital assets, net of related debt | 1,744,705 |
| Restricted for: | |
| Debt service | 22,327 |
| Unrestricted | <u>2,180,599</u> |
| TOTAL NET ASSETS | <u>\$3,947,631</u> |

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

| | Business-Type Activities |
|--|-----------------------------|
| OPERATING REVENUES | <u>\$2,187,559</u> |
| OPERATING EXPENSES: | |
| Direct costs | 1,042,091 |
| Operating expenses | 594,673 |
| Administrative expenses | <u>64,127</u> |
| TOTAL OPERATING EXPENSES | <u>1,700,891</u> |
| OPERATING INCOME | <u>486,668</u> |
| NON-OPERATING REVENUES (EXPENSES): | |
| Interest income | 33,923 |
| Economic development contributions | (12,500) |
| Payments in lieu of property taxes | (50,783) |
| Interest expense | <u>(70,241)</u> |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>(99,601)</u> |
| CHANGE IN NET ASSETS | 387,067 |
| NET ASSETS BEGINNING OF YEAR | <u>3,560,564</u> |
| NET ASSETS END OF YEAR | <u>\$3,947,631</u> |

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF FUND NET ASSETS
JUNE 30, 2012

ASSETS

| | Electric <u>Fund</u> | Water <u>Fund</u> | Gas <u>Fund</u> | <u>Total</u> |
|--|-------------------------|-----------------------|------------------------|------------------------|
| CURRENT ASSETS: | | | | |
| Cash (Note 2) | \$1,280,478 | | \$ 970,080 | \$2,250,558 |
| Accounts receivable (net) (Note 3) | 129,225 | \$ 28,828 | 18,144 | 176,197 |
| Inventories | 209,026 | 35,725 | 15,891 | 260,642 |
| Prepaid expenses | 11,525 | 1,667 | 2,730 | 15,922 |
| Interest receivable | 88 | | 20 | 108 |
| TOTAL CURRENT ASSETS | <u>1,630,342</u> | <u>66,220</u> | <u>1,006,865</u> | <u>2,703,427</u> |
| NONCURRENT ASSETS: | | | | |
| Bond costs (net) | 52,212 | | | 52,212 |
| Restricted assets: | | | | |
| Revenue bond sinking fund | <u>22,327</u> | | | <u>22,327</u> |
| TOTAL NONCURRENT ASSETS | <u>74,539</u> | | | <u>74,539</u> |
| CAPITAL ASSETS (Note 4): | | | | |
| Capital assets | 4,632,212 | 2,279,707 | 749,069 | 7,660,988 |
| Accumulated depreciation | <u>(2,142,808)</u> | <u>(1,527,412)</u> | <u>(531,063)</u> | <u>(4,201,283)</u> |
| TOTAL CAPITAL ASSETS | <u>2,489,404</u> | <u>752,295</u> | <u>218,006</u> | <u>3,459,705</u> |
| TOTAL ASSETS | <u>\$4,194,285</u> | <u>\$ 818,515</u> | <u>\$1,224,871</u> | <u>\$6,237,671</u> |

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF FUND NET ASSETS - Continued
JUNE 30, 2012

LIABILITIES AND FUND NET ASSETS

| | Electric Fund | Water Fund | Gas Fund | Total |
|--|--------------------|------------------|--------------------|--------------------|
| CURRENT LIABILITIES: | | | | |
| Cash deficit | | \$389,904 | | \$ 389,904 |
| Accounts payable | \$ 86,390 | 15,178 | \$ 60,911 | 162,479 |
| Accrued interest | 5,459 | | | 5,459 |
| Accrued salaries and vacation | 752 | 819 | 1,408 | 2,979 |
| Customer meter deposits | 4,612 | 3,451 | 6,156 | 14,219 |
| Current portion long-term debt | 130,000 | | | 130,000 |
| TOTAL CURRENT LIABILITIES | <u>227,213</u> | <u>409,352</u> | <u>68,475</u> | <u>705,040</u> |
| LONG-TERM LIABILITIES (Note 5): | | | | |
| Revenue capital loan notes payable | 1,715,000 | | | 1,715,000 |
| Less current portion above | (130,000) | | | (130,000) |
| TOTAL LONG-TERM LIABILITIES | <u>1,585,000</u> | | | <u>1,585,000</u> |
| TOTAL LIABILITIES | <u>1,812,213</u> | <u>409,352</u> | <u>68,475</u> | <u>2,290,040</u> |
| FUND NET ASSETS: | | | | |
| Invested in capital assets, net of related debt | 774,404 | 752,295 | 218,006 | 1,744,705 |
| Restricted for: | | | | |
| Debt service | 22,327 | | | 22,327 |
| Unrestricted | 1,585,341 | (343,132) | 938,390 | 2,180,599 |
| TOTAL FUND NET ASSETS | <u>2,382,072</u> | <u>409,163</u> | <u>1,156,396</u> | <u>3,947,631</u> |
| TOTAL LIABILITIES AND FUND NET ASSETS | <u>\$4,194,285</u> | <u>\$818,515</u> | <u>\$1,224,871</u> | <u>\$6,237,671</u> |

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2012

| | Electric Fund | Water Fund | Gas Fund | Total |
|--|--------------------|------------------|--------------------|--------------------|
| REVENUES: | | | | |
| Operating revenues | <u>\$1,392,860</u> | <u>\$255,632</u> | <u>\$ 539,067</u> | <u>\$2,187,559</u> |
| OPERATING EXPENSES: | | | | |
| Direct costs | 624,706 | 66,005 | 351,380 | 1,042,091 |
| Other operating expenses | 328,522 | 115,157 | 150,994 | 594,673 |
| Administrative expenses | <u>22,570</u> | <u>21,232</u> | <u>20,325</u> | <u>64,127</u> |
| TOTAL OPERATING EXPENSES | <u>975,798</u> | <u>202,394</u> | <u>522,699</u> | <u>1,700,891</u> |
| OPERATING INCOME | <u>417,062</u> | <u>53,238</u> | <u>16,368</u> | <u>486,668</u> |
| NON-OPERATING REVENUES (EXPENSES): | | | | |
| Interest income | 24,168 | 485 | 9,270 | 33,923 |
| Economic development contributions | (6,250) | | (6,250) | (12,500) |
| Payments in lieu of property taxes | (36,872) | (6,951) | (6,960) | (50,783) |
| Interest expense | <u>(69,902)</u> | <u>(66)</u> | <u>(273)</u> | <u>(70,241)</u> |
| TOTAL NON-OPERATING EXPENSES | <u>(88,856)</u> | <u>(6,532)</u> | <u>(4,213)</u> | <u>(99,601)</u> |
| CHANGE IN FUND NET ASSETS | 328,206 | 46,706 | 12,155 | 387,067 |
| FUND NET ASSETS BEGINNING OF YEAR | <u>2,053,866</u> | <u>362,457</u> | <u>1,144,241</u> | <u>3,560,564</u> |
| FUND NET ASSETS END OF YEAR | <u>\$2,382,072</u> | <u>\$409,163</u> | <u>\$1,156,396</u> | <u>\$3,947,631</u> |

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

| | Electric Fund | Water Fund | Gas Fund | Total |
|---|--------------------|---------------------|------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Cash received from customers | \$1,389,170 | \$ 253,169 | \$556,344 | \$2,198,683 |
| Cash paid to suppliers | (717,014) | (109,986) | (418,088) | (1,245,088) |
| Cash paid to employees | (115,796) | (34,072) | (84,115) | (233,983) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>556,360</u> | <u>109,111</u> | <u>54,141</u> | <u>719,612</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | |
| Economic development contributions | (6,250) | | (6,250) | (12,500) |
| Payments in lieu of property taxes | (36,872) | (6,951) | (6,960) | (50,783) |
| NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES | <u>(43,122)</u> | <u>(6,951)</u> | <u>(13,210)</u> | <u>(63,283)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Acquisition and construction of capital assets | (26,503) | (10,418) | (35,374) | (72,295) |
| Principal paid on capital loan notes | (125,000) | | | (125,000) |
| Interest paid | (70,300) | (66) | (273) | (70,639) |
| Decrease in sinking and reserve funds .. | (4,672) | | | (4,672) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(226,475)</u> | <u>(10,484)</u> | <u>(35,647)</u> | <u>(272,606)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Principal received on notes receivable ... | 6,963 | | 6,963 | 13,926 |
| Interest received from investments | 24,625 | 485 | 9,522 | 34,632 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>31,588</u> | <u>485</u> | <u>16,485</u> | <u>48,558</u> |
| NET CHANGE IN CASH | 318,351 | 92,161 | 21,769 | 432,281 |
| CASH (CASH DEFICIT) BEGINNING OF YEAR | <u>962,127</u> | <u>(482,065)</u> | <u>948,311</u> | <u>1,428,373</u> |
| CASH (CASH DEFICIT) END OF YEAR | <u>\$1,280,478</u> | <u>\$ (389,904)</u> | <u>\$970,080</u> | <u>\$1,860,654</u> |

LAKE PARK MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS - Continued
YEAR ENDED JUNE 30, 2012

| | <u>Electric Fund</u> | <u>Water Fund</u> | <u>Gas Fund</u> | <u>Total</u> |
|---|--------------------------|-----------------------|---------------------|----------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | | |
| Operating income | \$417,062 | \$ 53,238 | \$16,368 | \$486,668 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 128,846 | 57,368 | 20,769 | 206,983 |
| Amortization | 4,469 | | | 4,469 |
| (Increase) decrease in: | | | | |
| Accounts receivable | (3,044) | (2,499) | 17,223 | 11,680 |
| Inventory | (4,514) | (3,690) | (123) | (8,327) |
| Prepaid expenses | (780) | (58) | (589) | (1,427) |
| Increase (decrease) in: | | | | |
| Accounts payable | 15,286 | 5,630 | 1,992 | 22,908 |
| Accrued salaries and vacation | (319) | (914) | (1,553) | (2,786) |
| Customer deposits | <u>(646)</u> | <u>36</u> | <u>54</u> | <u>(556)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$556,360</u> | <u>\$109,111</u> | <u>\$54,141</u> | <u>\$719,612</u> |

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The financial statements of Lake Park Municipal Utilities (Utilities) include the Electric, Water, and Gas enterprise funds which provide services to the residents of the City of Lake Park. Lake Park Municipal Utilities is governed by a five-member board of trustees, which is appointed by the Mayor of the City of Lake Park. Based on the criteria set forth by the Governmental Accounting Standards Board, Lake Park Municipal Utilities is considered a component unit of the City of Lake Park. However, the City's financial statements cover the primary government only; therefore it does not include financial information concerning the Utilities.

For financial reporting purposes, the Lake Park Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Lake Park Municipal Utilities has no component units.

Government-wide and Fund Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets presents the Utilities' assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two proceeding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Major individual enterprise funds are reported as separate columns in the Fund Financial Statements. The Utilities report the following major enterprise funds:

Electric Fund - the Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

Gas Fund - The Gas Fund accounts for the operation and maintenance of the gas distribution system.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of Lake Park Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In reporting the financial activity of its enterprise funds, the Utilities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash

For the purposes of the statement of cash flows, the Utilities considers as cash all currency on hand and unrestricted demand and other deposit accounts with banks or other financial institutions.

Accounts Receivable

Accounts receivable and revenue are recorded at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is not considered to have a material effect on the financial statements. Accounts are reviewed annually; accounts considered uncollectable are written off to the allowance for doubtful accounts.

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out method. Inventories are recorded as expenses or capitalized, if applicable, when consumed rather than when purchased.

Restricted Assets

Funds set aside for payment of the Utilities' revenue notes are classified as restricted assets since their use is restricted by applicable note indentures.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Utilities has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

2. DEPOSITS AND INVESTMENTS

The Utilities' deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2012

2. DEPOSITS AND INVESTMENTS - Continued

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no assets classified as investments at June 30, 2012.

3. ACCOUNTS RECEIVABLE

Accounts receivable are reported net of allowance for doubtful accounts as follows:

| | <u>Electric Fund</u> | <u>Water Fund</u> | <u>Gas Fund</u> |
|--|--------------------------|-----------------------|---------------------|
| Accounts receivable - customers | \$131,025 | \$29,428 | \$20,144 |
| Less - allowance for doubtful accounts | <u>1,800</u> | <u>600</u> | <u>2,000</u> |
| Accounts receivable (net) | <u>\$129,225</u> | <u>\$28,828</u> | <u>\$18,144</u> |

4. CAPITAL ASSETS

Capital assets are accounted for at historical cost. The cost of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized.

Capital assets of the Utilities are depreciated using the straight line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives (In Years)</u> |
|---------------------------|--|
| Building and plant | 10 - 40 |
| Equipment | 5 - 15 |
| Distribution System | 20 - 40 |
| Land Improvements | 15 |

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2012

4. CAPITAL ASSETS - Continued

Capital assets activity for the year was as follows:

| Electric Utility | <u>Balance at July 1, 2011</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance at June 30, 2012</u> |
|------------------------------------|------------------------------------|--------------------|------------------|-------------------------------------|
| Capital assets: | | | | |
| Land and improvements | \$ 11,500 | | | \$ 11,500 |
| Buildings | 1,109,405 | | | 1,109,405 |
| Equipment | 541,700 | \$ 2,979 | | 544,679 |
| Distribution system | <u>2,943,104</u> | <u>23,524</u> | | <u>2,966,628</u> |
| Total capital assets | <u>4,605,709</u> | <u>26,503</u> | | <u>4,632,212</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 203,281 | 27,597 | | 230,878 |
| Equipment | 440,916 | 16,843 | | 457,759 |
| Distribution system | <u>1,369,765</u> | <u>84,406</u> | | <u>1,454,171</u> |
| Total accumulated depreciation | <u>2,013,962</u> | <u>128,846</u> | | <u>2,142,808</u> |
| Total capital assets, net | <u>\$2,591,747</u> | <u>\$(102,343)</u> | | <u>\$2,489,404</u> |
| | | | | |
| Water Utility | <u>Balance at July 1, 2011</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance at June 30, 2012</u> |
| Capital assets: | | | | |
| Land and improvements | \$ 35,006 | | | \$ 35,006 |
| Buildings | 1,104 | | | 1,104 |
| Equipment | 192,903 | \$ 1,421 | | 194,324 |
| Distribution system | <u>2,040,276</u> | <u>8,997</u> | | <u>2,049,273</u> |
| Total capital assets | <u>2,269,289</u> | <u>10,418</u> | | <u>2,279,707</u> |
| Less accumulated depreciation for: | | | | |
| Land and improvements | 13,228 | | | 13,228 |
| Buildings | 910 | 55 | | 965 |
| Equipment | 168,074 | 6,910 | | 174,984 |
| Distribution system | <u>1,287,832</u> | <u>50,403</u> | | <u>1,338,235</u> |
| Total accumulated depreciation | <u>1,470,044</u> | <u>57,368</u> | | <u>1,527,412</u> |
| Total capital assets, net | <u>\$ 799,245</u> | <u>\$ (46,950)</u> | | <u>\$ 752,295</u> |

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2012

4. CAPITAL ASSETS - Continued

| Gas Utility | <u>Balance at July 1, 2011</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance at June 30, 2012</u> |
|------------------------------------|------------------------------------|------------------|-------------------|-------------------------------------|
| Capital assets: | | | | |
| Land and improvements | \$ 2,061 | | | \$ 2,061 |
| Equipment | 234,286 | \$31,501 | \$19,231 | 246,556 |
| Distribution system | 496,579 | 3,873 | | 500,452 |
| Total capital assets | <u>732,926</u> | <u>35,374</u> | <u>19,231</u> | <u>749,069</u> |
| Less accumulated depreciation for: | | | | |
| Equipment | 203,644 | 9,463 | 19,231 | 193,876 |
| Distribution system | 325,881 | 11,306 | | 337,187 |
| Total accumulated depreciation | <u>529,525</u> | <u>20,769</u> | <u>19,231</u> | <u>531,063</u> |
| Total capital assets, net | <u>\$ 203,401</u> | <u>\$14,605</u> | <u> </u> | <u>\$218,006</u> |

5. LONG-TERM DEBT

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

| | <u>Balance at June 30, 2011</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance at June 30, 2012</u> | <u>Due Within One Year</u> |
|--|-------------------------------------|------------------|------------------|-------------------------------------|--------------------------------|
| Electric revenue refunding capital loan notes | \$1,840,000 | | \$125,000 | \$1,715,000 | \$130,000 |

Electric Fund Revenue Refunding Capital Loan Notes

On March 11, 2008, the Utility issued electric revenue refunding capital loan notes in the amount of \$2,310,000. The notes bear interest of 3.82% and mature in varying annual amounts, ranging from \$130,000 to \$185,000, with the final maturity due June 1, 2023. The notes are secured by future net revenues of the Electric Utility. The resolution providing for the issuance of the notes provides for the creation of a Sinking Fund, into which shall be set aside an amount equal to the amount of annual principal and interest coming due on those bonds.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2012

5. LONG-TERM DEBT - Continued

A summary of the Electric Fund's June 30, 2012 long-term indebtedness is as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|---------------------------|-------------------------|---------------------------|
| 2013 | \$ 130,000 | \$ 65,513 | \$ 195,513 |
| 2014 | 135,000 | 60,547 | 195,547 |
| 2015 | 140,000 | 55,390 | 195,390 |
| 2016 | 145,000 | 50,042 | 195,042 |
| 2017 | 145,000 | 44,503 | 189,503 |
| 2018 - 2022 | 835,000 | 133,509 | 968,509 |
| 2023 | <u>185,000</u> | <u>7,067</u> | <u>192,067</u> |
| TOTAL | <u>\$1,715,000</u> | <u>\$416,571</u> | <u>\$2,131,571</u> |

6. PENSION AND RETIREMENT BENEFITS

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the Utilities is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The Utilities' contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$18,759, \$15,132, and \$17,534 respectively, equal to the required contributions for each year.

7. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Utilities operate a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 4 active and no retired members in the plan. Participants must be age 55 or older and meet certain other requirements at retirement. Benefits terminate upon attaining Medicare eligibility. Coverage is provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy. It is anticipated retiree premiums will be fully offset by monthly contributions.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2012

7. OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

The Utilities has not implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions. This is a departure from U.S. generally accepted accounting principles. The amount by which this departure would affect liabilities, net assets and expenses is not reasonably determinable.

8. COMPENSATED ABSENCES

The Utilities' employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. A liability is recorded when incurred in the government-wide and enterprise fund financial statements and computed based on rates of pay in effect at June 30, 2012.

Employees also accumulate a limited amount of earned but unused sick leave. An employee does not receive any pay for sick leave upon termination, retirement or death. Since the amount of sick leave to be used is not determinable, no liability has been accrued.

9. ECONOMIC DEVELOPMENT CONTRIBUTIONS

By authorization of the Board of Trustees, funds were expended for economic development benefiting the City of Lake Park, Iowa and Lake Park Municipal Utilities.

10. PAYMENTS IN LIEU OF PROPERTY TAXES

By resolution of the Board of Trustees, voluntary payments in lieu of property taxes are made to the City of Lake Park, Iowa. Currently, payments approximate the City's utility usage.

11. RATES

The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

12. LOCAL GOVERNMENT RISK POOL

Lake Park Municipal Utilities is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2011

12. LOCAL GOVERNMENT RISK POOL - Continued

governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

Lake Park Municipal Utilities' property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. Lake Park Municipal Utilities' contributions to the Pool for the year ended June 30, 2012 were \$21,229.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Utilities does not report a liability for losses in excess of reinsurance or

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2011

12. LOCAL GOVERNMENT RISK POOL - Continued

excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2012, no liability has been recorded in the Utilities' financial statements. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

Lake Park Municipal Utilities also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

LAKE PARK MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2012

| | <u>Actual</u> | <u>Original/ Final Budget</u> | <u>Final to Actual Variance</u> |
|-----------------------------|--------------------|-----------------------------------|---|
| REVENUES: | | | |
| Charges for services | \$2,187,559 | \$2,297,050 | \$(109,491) |
| Non-operating | <u>33,923</u> | <u>14,500</u> | <u>19,423</u> |
| TOTAL REVENUES | <u>2,221,482</u> | <u>2,311,550</u> | <u>(90,068)</u> |
| EXPENSES: | | | |
| Electric | 1,088,822 | 1,168,770 | 79,948 |
| Water | 209,411 | 279,105 | 69,694 |
| Gas | <u>536,182</u> | <u>719,383</u> | <u>183,201</u> |
| TOTAL EXPENSES | <u>1,834,415</u> | <u>2,167,258</u> | <u>332,843</u> |
| CHANGE IN FUND NET ASSETS | 387,067 | 144,292 | <u>\$ 242,775</u> |
| FUND NET ASSETS | | | |
| BEGINNING OF YEAR | <u>3,560,564</u> | <u>3,189,173</u> | |
| FUND NET ASSETS END OF YEAR | <u>\$3,947,631</u> | <u>\$3,333,465</u> | |

LAKE PARK MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2012

In accordance with the Code of Iowa, the Utilities annually adopts a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. All Utilities' disbursements are included in business-type activities function.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Lake Park Municipal Utilities

We have audited the accompanying financial statements of the business-type activities and each major fund of Lake Park Municipal Utilities (Utilities) as of and for the year ended June 30, 2012, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated October 12, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Lake Park Municipal Utilities is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lake Park Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weakness have been identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake Park Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lake Park Municipal Utilities' response to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Utilities' response, we did not audit the Utilities' response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lake Park and other parties to whom the Lake Park Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Lake Park Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Wintner, Starn & Co., LLC

October 12, 2012

LAKE PARK MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Part I: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCY:

I-A-12 Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

LAKE PARK MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2012

Part II: Other Findings Related to Required Statutory Reporting

- II-A-12 Certified Budget - Total disbursements for all funds during the year ended June 30, 2012 did not exceed the total amount budgeted.
- II-B-12 Questionable Disbursements - We noted no expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-12 Travel Expense - No expenditures for travel expenses of spouses of officials or employees of the Utilities were noted.
- II-D-12 Business Transactions - We noted no business transactions between the Utilities and Utilities' officials or employees.
- II-E-12 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-12 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-12 Revenue Notes - The Electric Utility is in compliance with all aspects of the capital loan notes resolution, including cash reserves.
- II-H-12 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.